Public Service Commission of Wisconsin
Rebuttal Testimony of Mary Kettle
Gas and Energy Division

Wisconsin Energy Corporation
Docket 9400-YO-100

February 19, 2015

Q. Please state your name.

A. My name is Mary Kettle.

Q. Are you the same Mary Kettle that filed direct testimony in this proceeding?

A. Yes, I am.

Q. Is there anything you wish to correct from your direct testimony?

A. Yes, I need to correct one number. On page 8, line 17 of my direct testimony, I state that the revenue requirement impact in 2016 of directing WEPCO to write off its "old" transmission escrow balance would be about $11 million on a total company basis. That amount is incorrect and should be about $7.5 million on a total company basis calculated on the net-of-tax balance.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the rebuttal testimony of Wisconsin Energy Corporation (WEC) witnesses Allen Leverett, Scott Lauber, and John Reed. I will respond to Mr. Lauber's testimony regarding the calculation of "regulatory earnings." I will also respond to Messrs. Leverett and Reed regarding my proposal to include a condition that WEPCO be directed to write off its "old" transmission escrow balance.

Q. Please discuss why it is important to measure earnings under the regulatory basis, as defined in your direct testimony, rather than on the fuel rules basis.

A. Mr. Lauber's rebuttal testimony points out that the calculation of "regulatory earnings," as defined in my direct testimony, is inconsistent with the fuel rules calculation of net income and that it should, therefore, be rejected. However, if the Commission includes any conditions in this proceeding requiring refunds or not allowing recovery of deferred costs if the utility overearns, then the measurement of net income becomes important and needs to exclude disallowed costs. If incentive compensation is not excluded from the calculation of net income then, to the extent the utility overearns, the utility would essentially be allowed to recover the cost of its incentive compensation expense from ratepayers. Excluding incentive compensation from the calculation of net income also allows the utility to adjust its actual net income up or down by adjusting the level of incentive compensation it pays up or down.

Q. Please comment on Messrs. Leverett and Reed's rebuttal testimony concerning your suggestion that the Commission include a condition that directs WEPCO to write off its "old" transmission escrow balance.

A. Messrs. Leverett and Reed are both opposed to my suggestion that the Commission include a condition that directs WEPCO to write off its "old" transmission escrow. Mr. Leverett states that the Commission agreed to the deferral of these prudently incurred costs and that the suggestion to include writing off the "old" transmission escrow as a condition for approval of the acquisition raises legal and policy issues.

Mr. Reed implies that I am suggesting the write-off because of WEPCO's long history of overearning. He states that such a concept amounts to "retroactive ratemaking," which is prohibited in Wisconsin. It should be noted that deferrals themselves are retroactive in nature. In addition, my testimony does not say that I am suggesting the write-off because of past overearnings. I am suggesting the write-off because the company has offered no immediate rate relief to its customers as a result of the acquisition. In addition, the company has no financial incentive to amortize this $114 million off its balance sheet. The $114 million balance has remained unchanged since December 31, 2012, and is forecasted to remain unchanged until at least December 31, 2016. I discussed WEPCO's past overearning because it is significant, it is persistent in that it happens nearly every year, and it is reasonable to discuss WEPCO's financial performance during the years WEPCO was building up this large balance of deferred costs.

Q. If the Commission does not direct WEPCO to write off its "old" transmission escrow balance, is there an alternative condition that the Commission could consider?

A. Yes, I believe there is an alternative that would address the lack of financial incentive that WEPCO has to address its large balance of deferred costs and may provide WEPCO's ratepayers with some tangible benefit as a result of the acquisition. Instead of directing WEPCO to write off its "old" transmission escrow balance, the Commission could authorize WEPCO on a going-forward basis to earn no carrying costs on all of its deferred costs or on just the "old" transmission escrow or on any combination of deferred costs.

As stated above, WEPCO's "old" transmission escrow will earn $7.5 million in carrying costs annually in 2015 and 2016. Providing no carrying costs on this balance on a going-forward basis would provide rate relief of $7.5 million per year on a total company basis, assuming WEPCO continued to not amortize any of the balance. If the Commission wanted to provide additional incentive for WEPCO to address its huge deferral balance, it could provide no carrying costs on all of WEPCO's deferred costs.

That option would save ratepayers $14.8 million in 2016 on a total company basis, based on WEPCO's estimated average 2016 balance of deferred costs of $462 million and the assumption of a 40 percent tax rate.

If the Commission provided no carrying costs on all or part of WEPCO's deferred costs, the company would likely request to shorten the amortization period for its existing deferred costs, which would increase amortization expense such that revenue requirement could increase in the short term. Amortizing its deferred costs over a shorter period could still provide benefit to ratepayers, however, in that the company may be more inclined to try to control its costs to avoid a large rate increase. With WEPCO's electric rates already being relatively high, speeding up the amortization of its deferred costs could cause WEPCO to cut costs in other areas rather than allowing its rates to become even higher than they are now relative to other utilities in the state. In addition, if WEPCO receives no carrying costs on its deferred costs, it may be less inclined to request deferral of additional costs in the future.

Q. Do you have any additional comments?

A. Yes, I do. My lack of response to any testimony should not be construed to mean that I agree with any particular position by any witness.

Q. Does that conclude your rebuttal testimony?

A. Yes, it does.

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